

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business
of

**Children's Hospital and Regional Medical Center
Seattle, Washington**

DECEMBER 31, 2005

Order No. G 07-15
Children's Hospital and
Regional Medical Center
Exhibit A

SALUTATION

Seattle, Washington
February 9, 2007

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building, Capitol Campus
302-14th Avenue SW
Olympia, WA 98505

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business (CGAB), an examination was made of the corporate affairs and financial records of the CGAB of

Children's Hospital and Regional Medical Center

of

Seattle, Washington

hereinafter referred to as "the Hospital" at the location of its office, 6901 Sand Point Way NE, Seattle, WA 98115.

This report of examination is respectfully submitted showing the condition of the Hospital as of December 31, 2005.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Children's Hospital and Regional Medical Center of Seattle, Washington. This report shows the financial condition of the Charitable Gift Annuity Business and related corporate matters of Children's Hospital and Regional Medical Center as of December 31, 2005.

A handwritten signature in black ink, reading "Patrick H. McNaughton". The signature is written in a cursive style with a horizontal line underneath.

Patrick H. McNaughton
Chief Examiner

2-9-2007

Date

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
INSTRUCTIONS.....	1
COMMENTS AND RECOMMENDATIONS.....	1
ORGANIZATION PROFILE.....	2
AFFILIATED ORGANIZATIONS.....	3
MANAGEMENT AND CONTROL	3
MANAGEMENT	3
BOARD OF DIRECTORS.....	3
OFFICERS.....	3
TAX STATUS	4
CONFLICT OF INTEREST	4
CORPORATE RECORDS	4
STATEMENT OF ACTUARIAL OPINION	4
ANNUITY ASSETS CUSTODIAL FUNCTION	4
SUBSEQUENT EVENTS	4
ACCOUNTING RECORDS AND PROCEDURES.....	4
FINANCIAL STATEMENTS	5
ACKNOWLEDGMENT.....	6
AFFIDAVIT	7

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2001 through December 31, 2005. The 2005 Annual Report reflected the balance sheet and statement of revenue and expenses of the Hospital as of September 30, 2005. The OIC granted permission to the Hospital to present its CGAB Annual Report as of its fiscal year ended September 30, 2005. The examination of the 2005 Annual Report, therefore, covers the period ending September 30, 2005 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2005 for the general interrogatories and charitable gift annuities reserve fund. The financial statements are presented for the entire Hospital. However, the scope of our examination focused only on the transactions and operations of the CGAB. The Hospital's records, along with various aspects of its operating procedures and financial reports, were reviewed and tested during the course of this examination as necessary to substantiate CGAB reporting. The results of the examination are commented upon in the various sections of this report. In addition, the Hospital's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

The examination was conducted in accordance with statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination was conducted at the Seattle office of the Hospital by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed the Hospital's Annual Reports as part of the statutory examination. This review was performed to determine if the organization completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

No exceptions were noted and no instructions are included in this examination report.

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made in this examination report.

ORGANIZATION PROFILE

History: Founded in 1907, the Hospital provides patient care, promotes improved care through research, serves as an advocate on behalf of children, and educates providers and the community in health care issues.

Territory and Plan of Operation: On July 1, 1981, the OIC granted the Hospital a Certificate of Exemption No. 6 to conduct a CGAB in the state of Washington. However, the Hospital transferred all the in-force annuity contracts and the related CGA assets and liabilities to the parent organization, Children's Health Care System (CHCS) in December 2005. As of December 31, 2005, the Hospital no longer had CGA contracts, assets and liabilities in its accounting records. In April 2006, the Hospital surrendered Certificate of Exemption No. 6 to the OIC.

Total Net Assets: The Hospital's total net assets as of September 30, 2005 were \$571,447,000. This amount included an unrestricted net asset of \$411,321,000. The minimum unrestricted net asset requirement pursuant to RCW 48.38.010(6) was satisfied as of September 30, 2005.

Growth: The development of the Hospital for the past five years is reflected in the following schedules. All information was compiled from the Hospital's audited financial statements as of fiscal years ending September 30.

Schedule 1 – Statement of Financial Position

(In thousands)

<u>Fiscal Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Net Assets</u>	<u>Total Net Assets Allocated Into:</u>		
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
2005	\$860,432	\$288,985	\$571,447	\$411,321	\$25,519	\$134,607
2004	785,055	286,067	498,988	356,447	25,722	116,819
2003	716,895	292,855	424,040	312,623	14,423	96,994
2002	612,302	284,338	327,964	246,309	30,617	51,038
2001	503,036	195,938	307,098	235,942	19,839	51,317

Schedule 2 – Statement of Activities and Changes in Net Assets

(In thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues and gains	\$464,965	\$422,806	\$417,058	\$307,987	\$277,102
Expenses	392,506	347,858	320,982	287,121	253,594
Increase (decrease) in net assets	72,459	74,948	96,076	20,866	23,508
Net assets at beginning of year	498,988	424,040	327,964	307,098	283,590
Net assets at end of year	\$571,447	\$498,988	\$424,040	\$327,964	\$307,098

Number of gift annuity contracts at end of year

36	43	46	54	54
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AFFILIATED ORGANIZATIONS

The Hospital is a member of a group of affiliated healthcare organizations which have common representation on certain boards of governance. The following are the affiliates of the Hospital, each of which is a Washington not-for-profit corporation: CHCS which is the parent corporation of the affiliated entities, Children's Hospital Foundation, Children's Hospital Guild Association, Children's Retail, Health Team Northwest, and Children's Physicians.

MANAGEMENT AND CONTROL

Management: The Hospital Board consists of voting trustees and non-voting trustees. CHCS is the sole voting member of the Hospital. The management of the Hospital's business, property and affairs resides with the voting trustees.

Board of Trustees (BOT): The members of the BOT of the Hospital are currently the same as those of the BOT of CHCS, although this arrangement is not mandated by the corporations' organizational documents. The members of the BOT are as follows:

Kathleen Randall, Chairman
Peggy Walton, Vice Chairman
Mary Ann Flynn, Recording Secretary
Linda Stull, Corresponding Secretary
Rhoda Altom, Treasurer
Gloria Northcroft, Assistant Treasurer
Sue Albrecht
Prudence Baldwin
Sherry-Lee Benaroya
Jane Blair
Julia Calhoun
Nancy Daly
Margaret Habegger
Thomas Hansen, M.D.

Catherine Heron
Eugenia Higgins
Laura Jennings
Priscilla Joondeph
James Ladd
Mona Locke
Cindy Masin
Linda Mattox
Richard Molteni, M.D.
Teresa Moore
Laurie Oki
Robert Roskin, M.D.
Janet Sinegal
Didina Wells

Officers: Pursuant to the Bylaws, the officers of the Hospital include a chief executive officer (CEO), who holds the title of President and CEO. The CEO is selected and employed by the Hospital Board. According to the Organizational Chart, the Hospital's officers include, but are not limited to, the following: a president and CEO, a vice president and general counsel, a vice president and medical director, an executive vice president and chief operating officer (COO), and a vice president and chief financial officer (CFO).

Thomas Hansen, M.D., President and CEO
Jeff Sconyers, Vice President General Counsel
Rich Molteni, Vice President Medical Director

Pat Hagan, Executive Vice President COO
Kelly Wallace, Vice President CFO

Tax Status: The Hospital is a Washington not-for-profit corporation and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: The Hospital Board has established a conflict of interest policy to detect and manage any existing or apparent conflict of interest. The Audit and Corporate Responsibility Committee have general responsibility for oversight of the conflict of interest disclosure process. There were no exceptions noted.

CORPORATE RECORDS

The BOT met eight times in 2005 to discuss business which is pertinent to the Hospital. Minutes of the meetings of the trustees documented the approval of the Hospital's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

As of December 31, 2005, the Hospital did not have any in-force annuity contracts, therefore, there was no Statement of Actuarial Opinion issued at year-end.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of the Hospital as of September 30, 2005.

SUBSEQUENT EVENTS

There were no material events which impacted the Hospital's CGAB between the examination date and the last day of our field work.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation supported the data and amounts presented in the annual reports and financial statements.

FINANCIAL STATEMENTS

The following financial information summarizes the financial statements of the Hospital as of September 30, 2005:

Balance Sheet

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
<u>ASSETS</u>				
Cash and cash equivalents	\$10,138,000			\$10,138,000
Receivables from affiliates, net of payables from affiliates	5,195,000			5,195,000
Investments	394,966,606			394,966,606
CGA assets*	164,394			164,394
Other assets	449,968,000			449,968,000
Total Assets	<u>\$860,432,000</u>		<u>\$0</u>	<u>\$860,432,000</u>
<u>LIABILITIES</u>				
Accounts payable	30,392,000			30,392,000
CGA reserves*	164,394			164,394
Other liabilities	258,428,606			258,428,606
Total Liabilities	<u>288,985,000</u>		<u>0</u>	<u>288,985,000</u>
<u>NET ASSETS</u>				
Unrestricted	411,321,000			411,321,000
Temporarily restricted	25,519,000			25,519,000
Permanently restricted	134,607,000			134,607,000
Total Net Assets	<u>571,447,000</u>		<u>0</u>	<u>571,447,000</u>
Total Liabilities and Net Assets	<u>\$860,432,000</u>		<u>\$0</u>	<u>\$860,432,000</u>

*The reported CGA asset and reserve amounts were the balances remaining as of September 30, 2005. The transfer of all CGA contracts, assets and liabilities to CHCS were completed in December 2005, consequently, these accounts have zero balances as of December 31, 2005. (See ORGANIZATION PROFILE: Territory and Plan of Operation)

Statement of Financial Activity and Changes in Net Assets

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
Total revenues	\$464,965,000		\$0	\$464,965,000
Total expenses	392,506,000		0	392,506,000
Increase (decrease) in net assets	72,459,000		0	72,459,000
Net assets at beginning of year	498,988,000			498,988,000
Changes in net assets per examination	0			0
Net assets at end of year	<u>\$571,447,000</u>		<u>\$0</u>	<u>\$571,447,000</u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Hospital during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Orlando R. Gabriel", is written over a horizontal line.

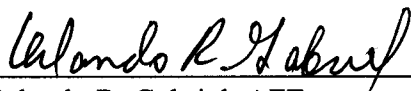
Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

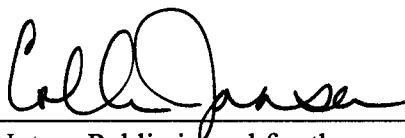
Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of the Hospital's CGAB was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 9th day of February, 2007.



Notary Public in and for the
State of Washington,
Residing at Seattle

